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Market Stats & Commentary

Market Vital Signs as of 4/30/2023

Stock Indexes	March	YTD	1 Year
S&P 500	1.56%	9.17%	2.66%
Dow Jones Industrial Average	2.57%	3.53%	5.64%
NASDAQ Composite	0.04%	16.82%	-0.88%
Russell Mid Cap Index	-0.53%	3.51%	-1.69%
Russell 2000 Small Cap Index	-1.80%	0.89%	-3.65%
MSCI EAFE Developed Int'l Index	2.82%	11.53%	8.42%
MSCI Emerging Markets Index	-1.13%	2.78%	-6.51%
Bond Indexes			
BBgBarc US Aggregate Bond Index	0.61%	3.59%	-0.43%
BBgBarc US Corp High Yield Bond Index	1.00%	4.62%	1.30%
Interest Rates	**4/30/23**	**12/31/22**	**4/30/2022**
Fed Funds Target Range	4.75-5.00%	4.25-4.50%	.25-.50%
10 Yr U.S. Treasury Rate	3.44%	3.84%	2.88%

Data courtesy of Raymond James

April was a bit mixed for stocks, with large cap shares outperforming mid and small caps by a pretty wide margin. Even international markets had a sizable divergence with developed markets doing far better than emerging markets.

I think there are a couple factors that led to the performance difference in domestic stocks during April. The first is lingering concerns about deposit bases at small and mid-sized banks. The large banks are seen as benefactors of this drama and thus that tips the scales in favor of the large cap banks. When you also add in the view that the large tech companies are seen as having little risk exposure to the regional banking sector issues, it makes sense that large cap indexes – heavy in tech and financials – would have had a better relative month.

The second factor was a solid earnings report season (relative to expectations) for many companies in the large cap indexes. This is probably a good spot to remind everyone that ***stocks tend to react to earnings reports based on the reported number versus what the expectations were going into the announcement***. Apple's revenue year over year (YOY) was down 2.5% and earnings per share were exactly the same YOY. Doesn't sound great but the stock was up about 5% on the day because the expectations had been worse than that. During earnings season, it's all relative.

Bond indexes also did well in April, driven primarily by intermediate and long term interest rates going down over the month, even as the Fed was preparing to hike short term rates again.

Staying on the interest rate topic for a moment, there is an odd thing going on in the bond market right now and it has to do with what markets are pricing in versus what the Fed is saying almost on a daily basis. As I write this on May 8, 2023 the Fed Funds futures market is pricing in the following probabilities for the Fed Funds rate after the December meeting:

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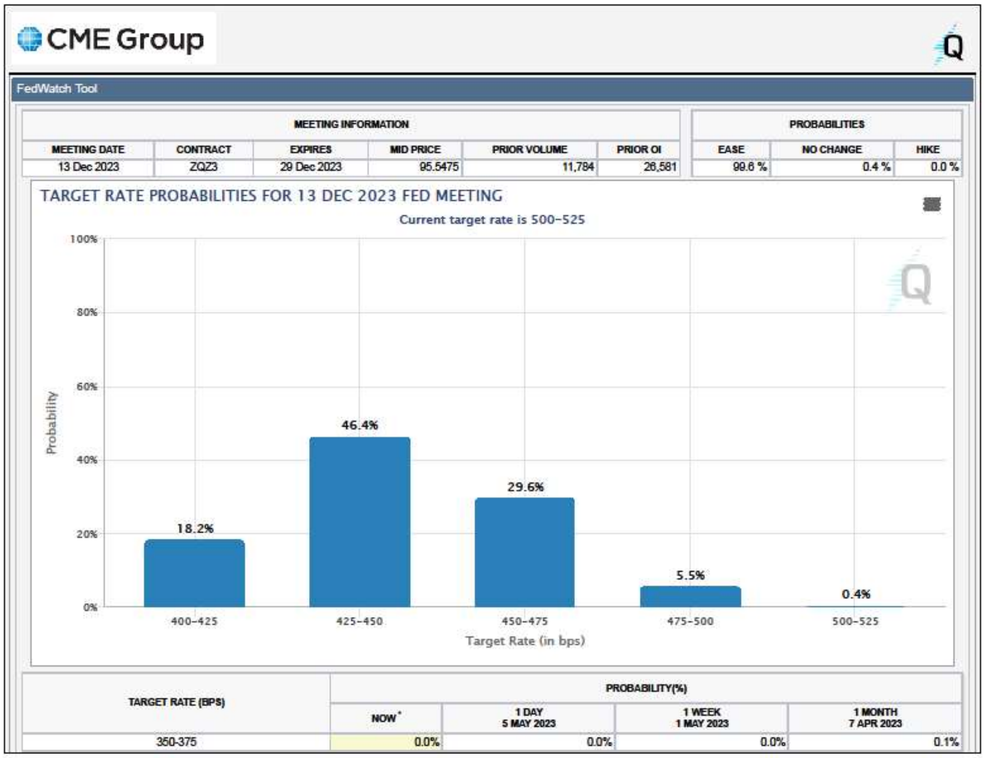

Data courtesy of CME Group

Notice that the odds in the futures market point to a target range of 4.25% to 4.50%. That would mean the Fed cuts by .75% before the end of the year. But before you start jumping up and down and doing a happy dance, you need to be aware that Chairman Powell has been very blunt about his view that rates will be at the current level for an extended period of time. I'm not exactly sure how he defines an extended period of time, but I am pretty sure he is saying don't expect any cuts before the end of 2023. And yet the market is pricing in 3 of them. Someone is going to be wrong about this and I'm not yet sure who it will be. It may be a little bit of both, as we might ***a*** cut before year end. However, 3 cuts by year end seems pretty optimistic to me.

The Run on First Republic Bank

It didn't actually happen until May 3rd, but I will spend a bit of space going over what happened…

After SVB and Signature banks failed, investors and depositors started looking around to see who else was vulnerable and First Republic was at the top of the list. First Republic caters to ultra-high net worth clients and thus had an abnormally high percentage of uninsured deposits – about 68%. This doesn't sound as bad as SVB or Signature – both above 90%, but it is a lot higher than the norm. For example, Truist is in the mid 40% range, Fifth Third is in the low 40% range, and Nashville based Pinnacle is in the mid 40% range. I could go on, but I think you get the idea.

For a while it looked as though First Republic was going to be able to make it through the fear that gripped depositors after SVB and Signature collapsed. The stock wasn't in great shape but it wasn't trading in the pennies. Then FRC reported Q1 numbers. It reported a healthy profit for Q1 2023 but revealed that the turmoil in March had sucked **$100 billion** in deposits from the bank – around 40% of total deposits at the end of 2022. This is an astonishing number and I don't know that any bank could survive a run like that. Once that number was out the bank's fate was sealed.

David